



# The APPRAISER

A PUBLICATION OF THE ARKANSAS APPRAISER LICENSING & CERTIFICATION BOARD

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## Opinion of Value

### Analysis of Test Scores Shows Subject Area Weaknesses

By Jim Martin  
Executive Director

While doing research recently for a Board member's speech, we came across the combined test scores of all candidates examined by Professional Examination Service.

We previously had analyzed a much smaller number of tested individuals to determine the five exam subject areas in which candidates were the weakest. All we had to work with at the time was an aggregate of all three types of exams.

The new pool of information we found gave us the opportunity to analyze not only a larger number of candidates but a breakdown of the three different exams given in order to determine what subject areas are the most difficult for candidates in each classification.

Here is a summary of what we found:

**State License:** In this entry-level category, 725 scores were analyzed. The five subject areas missed most often, in order, were: 1) Types of Value; 2) Income Approach; 3) USPAP; 4) Real Estate Markets and Analysis; and 5) Highest and Best Use.

The scores ranged from 59.95

for Types of Value, the most often missed, to 69.47 for Highest and Best Use.

**Certified Residential:** The scores of 945 candidates were analyzed in this category. The five subjects that gave the examinees the most problems were: 1) Evaluation of Partial Interest; 2) Legal Considerations; 3) Site Value; 4) Real Estate Markets and Analysis; and 5) Income Approach.

The scores ranged from 57.87 on Evaluation of Partial Interest to 69.35 on Income Approach.

**Certified General:** 680 scores were analyzed in this classification, and the five subjects in which the candidates were the weakest were 1) Cost Approach; 2) Sales Comparison Approach; 3) Real Estate Markets and Analysis; 4) Highest and Best Use; and 5) Valuation of Partial Interest.

The average score of the most often missed exam subject was 66.71; for Valuation of Partial Interest, the average score was 72.18.

None of the average scores in the weakest five subjects in the three classifications was above the passing score of 75 percent!

(See *VALUE* page 2)

## June 30 Is Deadline for License Renewal

By the time Arkansas appraisers receive this newsletter, they should have in hand a license renewal statement for Fiscal 2001 from the Board.

The renewal statement must be returned to the Board office or postmarked no later than June 30. Licenses that have not been renewed by July 1 will be considered lapsed.

The renewal fee for Fiscal 2001 is \$200, the same as last year.

To renew a license, an appraiser must submit evidence that he or she attended fourteen (14) hours of approved continuing education.

The renewal statement sent by the Board earlier indicates the amount of CE an appraiser has on file with the agency.

There has been some confusion and concern by many appraisers about when the 7-hour Uniform Standards Update must be taken. The change in rules from a two-year renewal cycle to an annual one may have contributed to this confusion.

To clarify the situation, an appraiser should ask himself or herself this question before sending in the license renewal statement: "Have I had 7 hours or more of a USPAP Update seminar within the last four years?"

If the answer is yes, the appraiser will not need to take a USPAP Update before renewing.

The renewal statement sent earlier in May also indicates whether an appraiser will need the Uniform Standards Update in order to renew. If uncertain, call the Board office at (501) 296-1843.

## THE APPRAISER

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"The Appraiser" is seeking timely articles or comments on practical appraisal subjects of interest to both residential and nonresidential appraisers from appraisers, lending institutions, and other mortgage lenders. The articles or letters should be sent to the Board's office at the above address.

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## Value

(Continued from page 1)

Other points to note include that Real Estate Market and Analysis was a commonly missed subject in all three exam classifications; both Certified Residential and General test-takers had trouble with Evaluation of Partial Interest; the Income Approach was a problem for both State License and Certified Residential classifications; and Highest and Best Use analysis was the third most often-missed question by State License and Certified General applicants.

This analysis may not mean much to those who already have their licenses, but it may be beneficial to education providers and to those who are preparing to sit for one of the exams. To use a cliché: "To be forewarned is to be forearmed!"



*APPRAISAL SUBCOMMITTEE representatives who recently reviewed the Arkansas Board's operations were Kathleen Gearheard and Dennis Greene.*

## ASC Team says Arkansas Is Among Top 5 States

Arkansas is among the top five states in complying with the federal licensure law for appraisers, two examiners from the Appraisal Subcommittee of the Federal Financial Institutions Examination Council informally told the state Board on completing their recent triennial review of its operations.

The auditors who made a two-day visit to Little Rock for the review were Kathleen Gearheard and Dennis Greene.

Before their arrival, the team received as requested a copy of the Board's rules and regulations, various application forms for Non-Resident Temporary Practice permits, minutes of Board and committee meetings since June 1997, a summary of all complaints and how the Board resolves them and a listing of all disciplinary actions.

Gearheard and Greene spent much of their time in Little Rock

looking at complaint files, the process for responding to Non-Resident Temporary Practice requests, and numerous individual licensee application files.

On the afternoon of their second day in Little Rock, the auditors met with the Board to share their findings and conclusions. Several concerns about the Board's rules and regulations were mentioned, but they already had been addressed when the rules were revised in January.

On the whole, Gearheard and Greene noted no substantial problems and indicated the Board would be receiving a letter specifically outlining their findings.

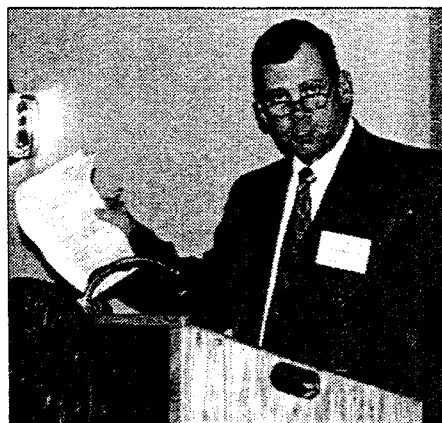
In closing comments, the team commended the Board for its effective operations and said Arkansas was one of the top five states in the country in complying with the federal licensing scheme.



*WILLIAM "BILL" RAYBURN, who teaches masters and doctoral level courses in real estate investment analysis and income property appraising at Ole Miss, uses humor to make his points in talking at the Board's seventh annual seminar.*



*FANNIE MAE speaker Michael Ferland receives a certificate designating him to be an "Arkansas Traveler."*



*DAVID REINOLD, Board member from Russellville, summarizes disciplinary actions the Board has taken.*

## 345

### Spend

### ‘A Day With

### the Board’

(Article on Page 4)



*JACK LARRISON, chairman of the Arkansas Board, moderates a seminar panel.*



*BOARD MEMBER Mary Lou Brainerd of Mena discusses changes adopted in January to the Board's rules and regulations.*



*A RECORD 345 Arkansas appraisers crammed into the North Little Rock Hilton Inn for the Board's seventh annual seminar for which participants received 7 hours of continuing education credits.*

# Seminar Is Given High Marks

Evaluations forms submitted by many among the 345 appraisers who attended the Board's seventh annual seminar April 18 suggest this may have been the most informative event of its kind the agency has sponsored.

Much of this has to do, of course, with the quality of the speakers. This year's seminar featured the entertaining William "Bill" Rayburn, who teaches masters and doctoral level courses in real estate investment analysis and income property appraising at Ole Miss. Rayburn proved he is not the stereotypical professor, perhaps because he co-owns Seminars, Inc., which specializes in documentation seminars and workshops for appraisal firms and financial institutions. This makes him a "hands-on" businessman as well.

In his humorous style, Rayburn discussed "Appraising in the New Millennium" and touched on such issues as what appraisers face today, the appraiser of the future, and where the industry is headed.

Rayburn said appraisers have a bright future if they will adapt to changes at a faster rate, develop new skills to meet a more diversified client base, and build and share data.

Michael Ferland, an appraiser in Dallas with the National Underwriting Center for Fannie Mae, the largest American investor in mortgage bank securities, spoke in the afternoon on "Are You Ready for Automated Valuation Models?"

A former commercial appraiser in Maine and Dallas who now is a Texas State Certified Residential Appraiser, Ferland talked about Fannie Mae's position on property



*NO EVENT* such as a seminar could be held much less be a success without the work of staff and volunteers, which is why their care and feeding is of utmost importance. Here, Board Administrative Assistant Jackie Gullahorn, left, and volunteers Cindy Stracener and Brenda Reinold, right, take a refreshment break at the registration table.



*DON JORDAN* of Hope tells why the Board began conducting personal interviews with exam candidates.

evaluations, the agency's appraisal guidelines, and the use of limited appraisals and inspection forms. He also highlighted Fannie Mae's philosophy on negative factors regarding subject property, the use of adjustments of comparable sales (that actually reflect the market reaction), differences between the subject and the comparable sales, and elaborated on forms his agency requires to underwrite a loan.

Ferland touched on the use of electronic data interchange stan-

dards and the future of appraisal services, including AVMs.

His presentation was called "one of the most practical overviews of Fannie Mae guidelines and operations" they had ever heard by some of the participants on their evaluation forms.

Ferland participated on an afternoon panel that consisted of Board members Mary Lou Brainerd, who discussed rule changes that were made in January; Don Jordan, who spoke of the personal interview process the Board has initiated for candidates sitting for various exams; and David Reinold, who summarized the Board's disciplinary actions in 1999.

Ferland and the local panelists fielded numerous questions from participants.

Board Chairman Jack Larrison was the seminar's moderator.

The attendance at the 2000 seminar set a record. Those who participated were credited with 7 hours of continuing education.

# Complaint Rate Appears to be Slowing

Only three complaints against appraisers had been filed with the Arkansas Appraiser Licensing and Certification Board this year through April 18, indicating the rate may be slowing.

As veteran Board member David Reinold of Russellville reported at the agency's seventh annual seminar, 22 complaints were lodged in 1999 against 23 appraisers.

This was the highest number of complaints the Board has received since its inception in 1993.

In its first year, the Board received 17 complaints. This fell to 16 in 1994 and 1995, but bumped up to 19 in 1996. In 1997, the complaints fell to 11, the lowest point, but rose again in 1998 to 17.

Of the 22 complaints filed last year, 13 came from consumers (buyer/seller), 4 from review appraisers, 1 was initiated by the Board, 3 came from mortgage companies, and 1 was referred by a government agency, Reinold said.

Thirteen of the 22 complaints were dismissed because probable cause was not found. Of the rest, 6 went to non-judicial hearings resulting in consent agreements, one was referred for a Board hearing, and one was considered to be outside Arkansas' jurisdiction. Two complaints are still open.

Fourteen of the complaints concerned value conclusions and were alleged to be supported by poor quality appraisal reports, which included one square footage error, 3 questionable inspections and certifications, 3 having to do with competency, 3 with attitude problems, 1 charged advocacy, 1 concerned excess fees, and 1 referenced quality of appraisals.

These are the problems the Board found in its investigations of the complaints:

- Errors, errors, errors from typos, software, cloning reports, and

failure to proof final documents adequately.

- Unsubstantiated adjustments in sales comparison approach.

- Failure to exercise due diligence in data verification.

- Failure to consider and analyze the sales contract in the context of the value conclusion.

- Supervisors not supervising.

- Overstating the subject improvement's square footage.

- Competency not demonstrated in the report.

- Certifying to having inspected the interior when no such inspection was done.

Disciplinary actions taken by the Board in the six cases that went beyond the probable cause level were: two appraisers were ordered to take additional education hours only; one consented to educational remediation plus a restriction on property type practice, and three were given a combination of additional education, suspended license, and fines.

Most recently, the Board revoked the license of appraiser Dennis Willems of Subiaco after finding he had failed to comply over six months with the provisions of a consent agreement he had signed stemming from an earlier complaint against him. However, the circuit court granted Willems' request for a stay of the Board's decision pending the outcome of his appeal.

Subsequently, the Board rescinded the revocation of Willems' license and reached a settlement with him under which he was placed on six months probation and agreed to pay a fine and receive additional education.

In other recent action, Brandy Buckner-Wallace and Charles Buckner Jr. of North Little Rock were disciplined by the Board because they co-signed a residential appraisal report the agency found

## Status Report

As of April 30, 2000, Board records show these totals for appraisers:

State Certified General ..... 382

State Certified Residential .... 300

State Licensed ..... 100

(Includes Temporary and Non-Resident Appraisers)

### NEXT EXAM

October 7, 2000

Potential applicants should contact the Board's staff for current information on the application process, exam schedules, fees, and other licensing-related matters by calling (501) 296-1843, or through its website at [www.state.ar.us/alcb/](http://www.state.ar.us/alcb/) or write the Arkansas Licensing and Certification Board at 2725 Cantrell Road, Suite 202, Little Rock, AR 72202.

was misleading in its presentation of gross living area and a nonexistent third bathroom.

The Board also concluded the report was misleading in its completeness about improvements in relation to plans and specifications and contained numerous inconsistencies in the description of the property. The two were found to have violated several standards and the Ethics Provision of the Uniform Standards of Professional Appraisal Practice (USPAP).

Buckner-Wallace and Buckner were fined \$1,800 each and their appraiser licenses were suspended for three months to be followed by nine months of probation, during

(See COMPLAINTS, page 6)

## Complaints

(Continued from page 5)

which a monthly log on all work they perform is to be submitted to the Board. They also were required to take a 15-hour USPAP course without receiving any credit toward the annual continuing education standard appraisers must meet.

Buckner has notified the Board he is appealing to circuit court, and the disciplinary action has been stayed pending a court decision. Bucker-Wallace's license suspension ended May 8.

In his presentation at the Board's seminar, Reinold gave this advice to appraisers who have complaints filed against them:

- \* Don't immediately engage the services of an attorney;
- \* Respond in writing to complaints in a timely manner, and
- If a hearing is scheduled, make a concerted effort to be there.

## Did You Know?

The Competency Rule has been changed to acknowledge that different kinds of competency in addition to "geographic" competency may be necessary in an assignment. These include, but are not limited to, "an appraiser's familiarity with a specific type of property, a market, a geographic area, or an analytical method." When these or potentially other forms of competency are necessary to develop credible results, appraisers are responsible for having the requisite competency to complete the assignment properly or they must follow the steps outlined in the Rule.

Standards Rule 1-2(f) has been modified to identify more specifically the parties associated with the appraiser's scope of work obligations. Accordingly, the phrase "third party" was replaced by the "client and intended user, or the appraiser's peers in same or similar assignment."

## CLARIFICATION

The Board office has received several inquiries concerning the interpretation of non-residential property type limitations on State Licensed and Certified Residential appraisers.

The Board's interpretation of the value of non-residential properties an appraiser may perform has not changed. What is new is that a specific statement about it has been added to Section 1(f) General in the 2000 edition of the Board's Rules and Regulations. The statement was made in an effort to clarify any misinformation that licensed practitioners may have received. The interpretation is now a rule, but the interpretation has existed since the first question was raised about non-residential property appraisals by State Licensed and Certified Residential licensees. It also is consistent with the interpretation disseminated by the Appraisal Subcommittee.

Education providers should note this restatement of the Board's interpretation and modify any comments they have been making on the subject so that they are consistent with the Board's Rules and Regulations.

Appraisers who consistently are being asked to do nonresidential property appraisals when they only hold a Certified Residential license may want to consider upgrading to Certified General status. Then there won't be any question about whether the work should be accepted!

## Education Offerings

Kelton Schools - Contact Ron Kelton (870) 932-7202. "Standards of Professional Appraisal Practice," 7 hrs. CE, Wednesday, May 17.

National Association of Independent Fee Appraisers - Contact 1-800-335-1751 for more information. Scheduled in Pryor Creek, OK: "3.2 Advanced Farm, Ranch & Rural Appraising," 30 hrs. QE, May 18-21; "Report Writing of Residential Real Estate Appraising," 30 hrs. QE, May 25-28.

National Association of Master Appraisers (The Lincoln Graduate Center) - Contact 1-800-531-5333. In Little Rock: "#663 Principles of Appraisal Review," 15 hrs. QE/CE, May 20-21.

The Columbia Institute - Contact 1-800-460,3147, George Harrison. In Little Rock: "#017 Residential Appraisals in Y2K," 4 hrs. CE, May 17; "101 USPAP Update," 8 hrs. CE, May 18; "#117 Residential Appraisal Update," 8 hrs. May 19. These seminars will be repeated in Fayetteville June 12-13.

University Seminars, Inc. (ASU Division) - Contact Don Featherston, 1-501-315-8777. "Advanced Techniques of Income Approach," 15 hrs. QE/CE, May 19-20; "Marshall & Swift Residential," 15 hrs. QE/CE, June 2-3.

U.S. Department of Housing and Urban Development (HUD) - Contact (501) 324-5961. "Eleventh Annual Appraiser/Underwriter Training Conference," 10 hrs. CE, June 5-6.

# Questions and Answers from the ASB

(EDITOR'S NOTE: *The Appraisal Standards Board does not establish new standards or interpret existing ones. Its USPAP Q&A is issued to regulators to illustrate the applicability of the Uniform Standards of Professional Appraisal Practice in specific situations, and to offer advice for the resolution of appraisal issues and problems. This does not constitute a legal opinion of the ASB.*)

**QUESTION:** A lawyer hired me to prepare an appraisal. He asked that I not prepare a report but discuss my conclusion with him orally instead. I did that, and he concluded my opinion would not be helpful to his client; therefore, he does not want a written report. What are my obligations under USPAP in this situation?

**ANSWER:** Under the Record-keeping section of the Ethics Rule, "An appraiser must prepare a work file for each assignment. The work file must include the name of the client and the identity, by name or type, of any other intended users; true copies of any written reports, documented on any type of media; summaries of any oral reports or testimony; or a transcript of testimony, including the appraiser's signed and dated certification; all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with this rule and all other applicable Standards, or references to the location(s) of such other docu-

mentation."

Clearly your reporting of your appraisal conclusions to the lawyer is an oral report and a summary of the report needs to be included in the work file. Also, "the appraiser's signed and dated certification."

**QUESTION:** I am a review appraiser for a national mortgage company, and I recently received a residential appraisal reported on a commonly used form that has two signatures on the appraiser line (left hand side of the form). Both appraisers also signed the certification as "the appraiser." Does this violate USPAP?

**ANSWER:** USPAP defines a signature as "*personalized evidence indicating authentication of the work performed by the appraiser and acceptance of the responsibility for content, analyses, and the conclusions in the report.*" Therefore, both appraisers would have complete responsibility for the appraisal in its entirety. It is important to note that a dual signature implies both appraisers participated in every portion of the development of and reporting of the appraisal.

**QUESTION:** I am a fee appraiser trying to get on the approved list for a local mortgage company. In order to be considered for approval, this lender requires appraisers to provide sample appraisals performed within the last year. Is there a way I can accomplish this without violating USPAP?

**ANSWER:** To provide this infor-

mation, an appraiser must satisfy the Confidentiality Section of the Ethics Rule, which states: An appraiser must protect the confidential nature of the appraiser-client relationship. An appraiser must act in good faith with regard to the interests of the client in the use of confidential information and in the communication of assignment results.

An appraiser must not disclose confidential information or assignment results prepared for a client to anyone other than 1) the client and persons specifically authorized by the client; 2) state enforcement agencies and such third parties as may be authorized by due process of law; and 3) a duly authorized professional peer review committee. It is unethical for a member of a duly authorized professional peer review committee to disclose confidential information presented to the committee.

The comment further explains that if all essential elements of confidential information are removed through redaction or the process of aggregation, client authorization is not required for the disclosure of the remaining information, as modified.

The appraiser in this case has three options: 1) Turn down the request to provide the information; 2) Obtain a release from the client of each sample appraised; or 3) Provide sample reports, but redact all confidential information. Statement No. 5 in USPAP ad-



## Question and Answer

(Continued from page 7)

ressed the Confidentiality Section of USPAP. It stresses that all opinions and conclusions, developed specific to an assignment, are confidential. Assignment results are an appraiser's

- \* opinions or conclusions developed in an appraisal assignment, such as value;

- \* opinions of adequacy, relevancy or reasonableness developed in an appraisal review assignment, or

- \* opinions, conclusions or recommendations developed in a consulting assignment.

**QUESTION:** I have been asked by a client to prepare a Restricted Use Appraisal Report that he plans to provide to another party. Does USPAP allow me to use this option under this circumstance?

**ANSWER:** No. The comment to Standards Rule 2-2 states, "When the intended users do not include parties other than the client, a Restricted Use Appraisal Report may be provided." In other words, this particular report option may be used only when the client is the only intended user.

## Long on Ethics

Deborah Long, who spoke at the Board's seminar last year, wrote in a recent column that while becoming an ethical person is a process developed by age and experience, ethical decision-making can be "jump-started."

She suggested using these methods:

- \* Discuss issues with ethical dimensions at the dinner table and at company meetings. (Look to the presidential campaign for issues that can be discussed, she says.)

- \* Choose a quote for the day and ask others to explain it by giving examples. For example, there is a Hasidic proverb that "One who thinks money can do everything is likely to do anything for money."

- \* Be a role model. Research indicates individuals are cognitively attracted to those with superior ethical maturity, which puts a special burden on them to speak up and do the right thing.

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